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BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Chairman Of The Export-Import Bank Of The United States

ORIGINAL

COMPLETED

Review Of Selected Aspects Of Claims Division Operations And Certain Allegations Concerning Claim Payments And First-Class Air Travel

The Export-Import Bank's Claims Division plays an important role in minimizing the expenditure of Bank funds and recovering monies due to the Bank. However, it is difficult and time-consuming to determine if the Division is paying or denying claims in a consistent manner and effectively minimizing financial loss through its recovery efforts because the Division lacks formalized operating policies and guidelines.

In addition, Eximbank needs to improve control over its travel processing by improving procedures to (1) verify the accuracy of airline bills before payment, (2) ensure that the least-expensive airfare available is obtained, and (3) systematically review travel records to ensure that unused tickets and coupons are redeemed.

GAO/ID-82-49
JULY 20, 1982

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INTERNATIONAL DIVISION

B-197710

Mr. William H. Draper III
Chairman, Export-Import Bank of
the United States

Subject: Review of Selected Aspects of Claims Division Operations and Certain Allegations Concerning Claim Payments and First-Class Air Travel (GAO/ID-82-49)

Dear Mr. Draper:

On October 15, 1980, Senator William Proxmire, then Chairman of the Senate Committee on Banking, Housing, and Urban Affairs, requested that we examine certain allegations concerning the use of first-class air travel by Export-Import Bank officials and the processing and payment of claims by Eximbank's Claims Division. (See app. IV.) In accordance with subsequent agreements with Senator Proxmire's office, we performed our review in conjunction with our audit of Eximbank's fiscal year 1981 financial statements and are reporting the results of our review directly to you.

The General Services Administration has previously brought the matter concerning the use of first-class air travel to the Bank's attention. Moreover, our review of out-of-city travel for a recent 8-month period did not reveal any discrepancies regarding the use of first-class air travel. Also, our findings in reviewing the Claims Division do not support the allegations concerning Claims Division management. (See app. I.)

We are also reporting on two other matters which came to our attention during the review:

--The need for the Claims Division to formalize its operating policies and guidelines.

--The need to improve control over travel processing.

Our recommendations for corrective action concerning these matters are included in appendix II.

III

We did not obtain official comments on this report. We did, however, discuss its contents with the Senior Vice-President, Exporter-Credits, Guarantees, and Insurance; and the Vice-President, Administration, and they generally agreed with our findings and recommendations.

Section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this report.

We are sending a copy of this report to Senator William Proxmire.

Sincerely yours,

Frank C Conahan

Frank C. Conahan
Director

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RESULTS OF OUR REVIEW OF ALLEGATIONS

BACKGROUND

On June 26, 1979 (see app. V) Senator Proxmire forwarded an unsigned letter to us alleging certain problems at the Export-Import Bank and requested that we look into the matter. As agreed with the Senator, we looked into the allegation relating to claims during the course of our fiscal year 1979 financial statement audit. In our reply to the Senator (see app. IV) dated March 28, 1980, we reported that our test of selected claims showed no indications that irregularities existed because of flexible bank policies or because individuals involved in authorizing loans, guarantees, or insurance agreements also participate in the claims process.

The October 1980 request from Senator Proxmire contained two letters from an anonymous individual that made allegations concerning first-class air travel and that claim payments and management are not consistent or proper. Allegations concerning the first-class travel had previously been investigated by GSA. Specific allegations concerning management of the Claims Division were

--claims officers are transferred to another division if they are uncooperative,

--undue pressure is applied to claims officers and claims are taken away from officers when they do not cooperate,

--claims officers are sometimes prompted as to what is to be said when presenting claims to the Board of Directors, and

--memoranda provided to the Board of Directors regularly exclude information so that the Board is not fully aware of the facts surrounding a claim.

In support of these allegations, four specific cases were cited involving (1) a conditional claim payment, (2) the fee paid to a Mexican agent for cashing some negotiable instruments, (3) a series of claims under the commercial bank guarantee program involving the export of exotic breeding cattle, and (4) payment of a claim where the insured had failed to submit the insurance premium. We reviewed the allegations and could not find any evidence that they were supportable.

ALLEGATIONS CONCERNING FOUR CLAIMS AND CLAIMS OFFICERS ARE UNSUPPORTED

Our review of the four claim cases and interviews with 12 present and former claims officers did not support the allegation that

claims officers are unduly pressured or transferred if they are uncooperative. We also did not find any evidence that (1) there is any mismanagement of Eximbank's Claims Division or (2) that pertinent information has been withheld from the Board of Directors or Loan Committee.

Three of the cases cited in the anonymous letter forwarded to us by Senator Proxmire involved some disagreement among Claims Division staff as to how to dispose of the case. Officials advised us that the vast majority of claims are processed without difficulty and that the four cases in question are not representative because of the unique circumstances involved.

Evidence in the claim files indicates that the final recommendations were made without attempts to withhold pertinent information. We found claim memoranda in three of the cases--one case did not involve a claim memorandum--contained, in our opinion, enough information regarding the major issues surrounding the claims for the Board of Directors and the Loan Committee to make an informed decision. Thus, we believe the Board of Directors and Loan Committee were made aware of the facts in these cases.

Claim memoranda are submitted to the Board of Directors or Loan Committee--depending on the size of the claim--for a final decision. Claims Division procedures require the claim memorandum to include a cover sheet giving the general details of the claim, a background and liability section explaining the nature of the claim, transaction details, amount of the claim, and under what provision of the insurance policy/guarantee agreement the claim has been submitted. This is followed by a section describing any violations of the policy or guarantee agreement with conclusions and a recommendation as to how violations should be treated. The remainder of the memo contains backgound information on the buyer/guarantor; reason for default and recovery prospects; computation of loss; and recommended action.

Given these requirements and the nature of some claims, discretion is required as to what and how much information is pertinent, particularly in memoranda provided to the Board of Directors whose schedules would probably not permit the review of lengthy memoranda. Consequently, every detail of a claim is not to be included.

Ten present and former claims officers we interviewed believe that claim memoranda are factual and contain enough information for the Board of Directors. Two officers believed that claim memos are sometimes not complete enough. However, they were unable to provide examples which substantiated their claims. As a result, we have no reason to believe that pertinent information is being systematically withheld from claim memoranda.

Our discussions with former and present claims officers did not support the contention that claims officers are unduly pressured or prompted as to what to say when presenting claims to the Board of Directors or Loan Committee. The claims officers we interviewed stated that they were not pressured and did not feel constrained when presenting cases to the Board or Loan Committee. The claims officer involved in the conditional claim payment attributed his differences with Claims Division management to a "personality conflict" as much as the facts surrounding the claim. Contrary to the anonymous letter, the original claims officer that worked on the First National Bank of Oregon cattle claims was not relieved of the claims by management but, requested to be removed from the claims because of (1) a disagreement over what information should have been included in a claim memorandum on one of the claims and (2) questions regarding his analysis of the facts surrounding the claims.

While claims cases are sometimes taken away from one claims officer and given to another, we did not find any indication that this happened because a claims officer was uncooperative. Precise records showing how many claims officers worked on a case were not available. However, our discussions with several claims officers indicated that claims are sometimes transferred in order to balance workload among the officers or to consolidate claims according to which country the buyer is located.

More specific details on our review of the four claim cases follows.

Case Involving a Conditional Claim Payment

In May 1969, the Foreign Credit Insurance Association (FCIA) issued a medium-term policy to General Motors Overseas Distributors Corporation (GMODC) to cover shipments of air-conditioners to a Chilean buyer valued at about $110,000. GMODC made seven shipments with the buyer fully paying for the first five. Two installments were outstanding on shipments six and seven. The buyer claimed to have paid his obligations. GMODC maintained that sufficient payment had not been received and filed a claim.

As of March 24, 1972, the buyer had not replied to a request for information from FCIA. FCIA recommended claim payment of $4,952, sharing the loss on a 50-percent basis with the Export-Import Bank. This was with the understanding that if it was subsequently determined that the payment was actually made, GMODC would reimburse the amount of the claim.

Eximbank subsequently informed FCIA that the buyer had submitted evidence indicating that installments six and seven were paid. Eximbank concluded that until such time as the insurers were satisfied that a valid indebtedness existed, there was no basis for claim payment. Therefore, it suggested to FCIA that the

(1) buyer should provide evidence of all payments made and (2) claim be deferred pending receipt of documentation.

FCIA indicated to Eximbank that GMODC's broker and bank had urged FCIA to accept liability and pay the claim subject to reimbursement if the debt was subsequently determined to have been paid. FCIA believed that the insured had satisfactorily established a loss. FCIA also stated that the buyer had not offered an accounting of the remitted funds but merely asserted the obligations were paid. As a result, FCIA could not justify refusing the claim.

Eximbank agreed to the claim payment on condition that, should it be determined that the debt had been completely paid, the claim would be reimbursed. Eximbank's share of the claim was $2,476.

In April 1973, a Claims Division staff member visited the buyer to resolve the discrepancy. The staff member informed FCIA that he had been unable to verify that the debt was fully paid, but it appeared that more was paid than what was reflected by GMODC's records. The buyer appeared to have paid all but $972. FCIA then wrote to GMODC in May 1973, explaining that information seemed to indicate that most of the amount had been paid and asked it to review the matter. In a November 1973 letter to its broker, GMODC stated that it had taken quite some time for them to respond to the FCIA inquiries because the transaction went back many years, and they had a problem in compiling the necessary data.

GMODC staff could not reconstruct the transactions. GMODC then asked FCIA to drop recovery and FCIA agreed. FCIA credited Eximbank's account for $2,476. According to FCIA, they assumed Eximbank's share of the loss to resolve a serious dispute with GMODC as FCIA was in the process of negotiating the sale of a master policy to GMODC.

Conclusion

We did not find any discrepancies by the Export-Import Bank in handling this claim. In view of the fact that the claim payment was conditional, Eximbank's interest remained protected. The problems appear to result from the failure of the insured and the buyer to keep adequate records. Although the buyer denied the debt, he did not produce evidence to show the debt had been paid until after FCIA and Eximbank had paid the claim. FCIA did not want to pressure GMODC to repay the claim because it was negotiating the sale of a master policy. Therefore, FCIA absorbed the loss.

Fee Paid for Cashing Mexican Negotiable Instruments

In this case, Eximbank's records show that a Mexican attorney had been contracted on a contingency fee basis to recover a delinquent debt from a Mexican buyer. Prior to paying the claim, Exim-

bank agreed to accept some Mexican notes, worth about $40,000, as partial recovery. Eximbank requested by letter that its Mexican attorney--who had been contracted to collect the debt from the buyer--redeem these notes as they matured. The letter did not mention a fee agreement.

The Mexican attorney collected the first note of $6,044 and billed Eximbank 10 percent based on his contingency fee agreement. Eximbank told the attorney that cashing the notes was not part of the agreement to collect the buyer's debt. Therefore, this service could not be paid on a contingency basis. Eximbank proposed paying the attorney on a time plus expense basis.

The attorney replied that the notes had been assigned to him after the contingency fee agreement for collecting the buyer's debt had been made and that there were many difficulties in collecting the notes. He also stated that the case fell under the 10 percent contingency fee. However, the attorney indicated that he would abide by Eximbank's decision on the matter.

A Claims Division officer stated in a memorandum to the files that the attorney's fee should be on the time plus fixed fee basis. The officer had been informed by a Bank of California official that redeeming the notes was regularly done without difficulty.

The Vice President-Claims and his Deputy, in a subsequent memorandum to the files, stated that they disagreed with the officer's position. Based on their past experience and a letter from the attorney stating the difficulties in collecting the notes, redemption was not a routine matter. They also believed that since the letter requesting the attorney to redeem the notes was silent as to the fee, the attorney had every right to believe the contingency fee applied. These officials recommended payment of the contingency fee. A total of $1,871 was paid for collecting $35,793, which resulted in a fee of about 5 percent of the amount collected.

Conclusion

The decision to pay a contingency fee rather than time plus expenses was judgmental based on the evidence submitted by the attorney. We believe, however, that the important factor was that the fee was not established at the time the attorney was requested to collect the notes. If this had been done, the problem may not have occurred.

First National Bank of Oregon Cattle Claims

This case has the greatest dollar amount of the four claim allegations forwarded by Senator Proxmire's request--the amount paid was $1.2 million. Officials also told us that these claims were perhaps the most complicated ever handled by the Claims Division.

Claims Division files showed that the First National Bank of Oregon (FNBO), as a participant in the commercial bank guarantee program, committed the Export-Import Bank to cattle loan guarantees. The purpose of the program is to assist in financing U.S. exports by providing repayment assurance to private lending institutions that extend credit for export transactions. Applications from commercial banks for guarantees are approved by Eximbank on a case-by-case basis unless Eximbank has delegated authority to the commercial bank to commit Eximbank's guarantee. FNBO was delegated such authority on May 20, 1971.

Between November 1972 and November 1974, FNBO financed 21 transactions to export approximately 1,888 head of exotic breeding cattle to Canadian buyers. FNBO used its delegated authority to commit Eximbank's guarantee to 19 of 21 transactions. Of the 21 loans, 3 were repaid, 1 was repurchased by the exporter, 2 were collected with the assistance of Canadian counsel, and 15 were submitted to Eximbank as claims.

Eximbank made partial claim payment of about $426,000 but stopped payment in March 1977, when the Claims Division staff found evidence of violations by FNBO. These violations included:

--FNBO's failure to make an independent credit judgment prior to committing Eximbank's guarantee in 13 guarantees.

--In three of the guarantees FNBO failed to obtain personal guarantees as a condition to issuing the loans.

--FNBO knew, or should have known in several of the cases, that the Exporter's Certificate contained misrepresentations.

--In nine of the cases FNBO officers failed to advise their loan committee of adverse credit information that would have had a negative impact on the borrowers' credit.

In April 1978, Eximbank discussed these issues with FNBO officials and FNBO requested time to conduct an internal audit. Eximbank agreed not to take further action until the audit was completed.

In an August 16, 1978, letter, FNBO told Eximbank that the principal problems did not appear to result from its failure to comply with technical requirements of the loan program or from the failure to make independent credit investigations and prudent decisions concerning the borrowers. Rather, problems arose because of a failure to insist upon fulfilling documentary requirements and to observe discrepancies among documents that were submitted.

The letter also stated that if FNBO had obtained and reviewed the documentation as rapidly as good banking practices suggest, it may have become aware of a pattern of problems with the exporter and stopped the loans sooner. This pattern should have become apparent by December 1973. FNBO proposed that Eximbank accept full responsibility for loans committed prior to December 1973 and FNBO would assume responsibility for losses after that date.

In October 1978, FNBO wrote Eximbank that it had completed its audit and had concluded that the claims had resulted solely from a rapid and severe decline in the cattle market and not from deficiencies in documentation or technical non-compliance with the contract between Eximbank and FNBO.

The agreement under which FNBO committed Eximbank's guarantee provided that disputes must be settled by arbitration. FNBO stated that it would consider counter-proposals to settle this matter. However, in the absence of any proposals, it would submit these claims to arbitration.

In a separate but related matter, FNBO initiated legal action to recover the recourse portion of the notes purchased from the exporter. In this connection it proposed that Eximbank assign to it any claims Eximbank might have against the exporter.

During this time, Eximbank learned that the FBI had been conducting an independent investigation of the exporter's activities. This investigation focused on the exporter's use of Eximbank's supplier credit program. After several meetings with FBI officials, Eximbank asked the FBI for guidance as to whether it should accept a settlement or allow FNBO to submit the claims for arbitration, and whether it should assign to FNBO any claims it may have against the exporter.

In a memorandum to the Board of Directors dated May 18, 1979, Eximbank's General Counsel and Vice President, Claims, stated that after a long and detailed investigation, Eximbank and the Department of Justice concluded that the risks of litigation justified acceptance of a proposal which would achieve an approximate 50-50 sharing of the liability. The memorandum summarized the major issues which justified a settlement.

We reviewed the tape of the meeting of Eximbank's Board of Directors to consider the proposed settlement of the cattle claims. This meeting was attended by four Board members, Eximbank's General Counsel, and other Eximbank staff members. It appeared to be a fair review of the case in that all issues were thoroughly discussed and everyone was given a chance to state their views.

The General Counsel's main argument for accepting the 50-50 settlement with FNBO was the Department of Justice's recommendation.

He also believed it would be more practical to accept the settlement instead of going into arbitration. It was agreed by all present that an arbitrator would probably apply "rough justice" and impose a solution similar to the 50-50 settlement. After all of the issues were discussed, the Board agreed that the 50-50 settlement was the best solution.

At the time of the cattle claims, FNBO's delegated authority was rescinded. We were advised that FNBO's authority has since been reinstated. Guarantees for livestock transactions have been completely excluded from the Delegated Authority Program. Such guarantees are now processed entirely by Eximbank.

Conclusion

Eximbank's decision to accept a 50-50 settlement with FNBO for the 15 cattle claims appears reasonable. The decision was based on a recommendation by the Department of Justice and a thorough evaluation of the case by the Eximbank's Board of Directors and officials. Eximbank and Justice agreed that although there were many violations of the loan guarantee program by FNBO and the exporter, the difficulties of proof did not justify submitting these claims to the courts for arbitration. They believed that this would only result in the arbitrator rendering a decision similar to the one that was accepted.

Claim Payment Although Premium Had Not Been Submitted

This case involves a claim by General Motors Acceptance Corporation (GMAC) even though it failed to submit the insurance premium until after the buyer defaulted. Eximbank records show that GMAC filed a claim for a debt in Nicaragua after the buyer's business was looted during political disturbances in 1979. The claim was for about $451,493, representing the unpaid debt for commercial and passenger vehicles and spare parts.

GMAC discovered that 10 shipments totaling $109,466 included in the claim had not been reported and premiums not paid. GMAC forwarded the required reports and $2,284 for the insurance premiums. FCIA with the concurrence of Eximbank returned the premiums and informed GMAC that they would not consider unreported items with unpaid premiums. GMAC disagreed stating it was their policy that all export financing was to be insured. They had intended to declare the items and pay the premiums, but due to administrative oversight this was not done. GMAC also stated that for FCIA not to accept the premium and pay the claim was inequitable because FCIA had subsequently performed audits on policy holders and demanded additional premiums for shipments that had not been reported.

Since this was a political risk claim covered by Eximbank, FCIA submitted it to Eximbank for consideration. Eximbank initially opposed paying the claim. It maintained that its policy had always been to make pro-rata adjustments to claim payments where there was a shortfall in premiums. It believed that to accept the premiums more than a year after the shipments were made after the notes were in default, and after the claim had been filed, was to accept the responsibility for errors and omissions by the insured.

However, the GMAC's insurance broker argued that there was no clause in the insurance policy which stated that failure to pay the premium within the specified time constituted a material breach that either relieved GMAC of the obligation to pay the unpaid premium once the error was discovered, or Eximbank's obligation to provide the insurance coverage.

Five months later, Eximbank decided to pay the claim. The recommendation to Eximbank's Board of Directors, to pay the claim, cited that as a general rule, insurance law does not favor forfeiture due to non-payment of premium on an otherwise eligible transaction unless there is a showing of bad faith. It stated that FCIA had adopted the above reading of insurance law and, since both FCIA and Eximbank's experience with the insured had been excellent, there was no reason to believe that failure to pay the premium was anything but an oversight.

Eximbank's Office of General Counsel advised us that the absence of such a provision weakened its position not to pay the claim. As a result of this claim, provisions concerning the non-payment of insurance premiums have been added to the Master Export Credit Insurance Policy. Also, FCIA advised Eximbank that similar provisions will be added to its insurance policies as they are issued or renewed. Eximbank's Office of General Counsel advised us that the provisions will place Eximbank in a much stronger position to deny a claim for non-payment of premium should a similar case occur.

Conclusion

The decision to pay this claim appears reasonable in view of the legal opinions expressed by FCIA and Eximbank. However, the important fact in this case is that the insurance policy did not contain provisions for non-payment of premium. FCIA and Eximbank have taken action to correct this situation.

ALLEGATIONS CONCERNING FIRST-CLASS AIR TRAVEL HAVE BEEN PREVIOUSLY REVIEWED

One of the allegations contained in the letter to Senator Proxmire cites the use of unjustified first-class air travel by the previous Chairman and other Eximbank officials. In early 1980,

GSA reviewed Eximbank's first-class air travel for the period October 1, 1979 through March 31, 1980. GSA concluded that the justifications provided were inadequate for nearly all of the first-class trips reported by Eximbank. Further, according to GSA and Eximbank officials, during congressional hearings a former Chairman was asked to stop traveling first-class.

Our review of all out-of-city travel between August 1981 and March 1982, showed that there were no irregularities in the use of first-class travel. We noted several instances where the current Chairman traveled first-class, but paid for the difference between coach and first-class fare. There was also one instance where the Acting Vice-Chairwoman traveled first-class providing justification that appeared to fall within the requirements of GSA's Federal Travel Regulations. In addition, a memorandum was sent to all bank employees in April 1980, stating that no first-class travel will be allowed unless authorized by the Chairman or Vice-Chairman. Justification for the extra travel fare must be submitted in writing and attached to the travel order.

OTHER MATTERS NOTED DURING REVIEW

CLAIMS DIVISION NEEDS TO FORMALIZE OPERATING POLICIES AND GUIDELINES

The Claims Division processes claims, reschedules debts, and conducts efforts to recover obligations due Eximbank without the benefit of formally established operating policies and guidelines. For fiscal years 1979 through 1981, an annual average of $14.7 million in claims were paid and $6.8 million were recovered by Eximbank. The Claims Division plays an important role in minimizing the expenditure of Eximbank funds and recovering monies due Eximbank. The Division's effective operation, particularly in this period of economic uncertainty, is important in Eximbank's efforts to remain profitable. In the absence of formal policies and guidelines, it is very difficult and time-consuming to determine (1) whether the Division is paying or denying claims in a consistent manner and (2) how effective the division is at minimizing financial loss through its recovery efforts. We believe that formal policies and guidelines would provide further assurance that claims are processed and paid consistently and that obligations due Eximbank are collected as efficiently and promptly as possible.

During our review, we noted some areas where stated policies or guidelines are needed.

--A policy for establishing limiting conditions as to Eximbank's liability in rescheduling loans prior to claim payment. For example, under what conditions is it advantageous to have new obligations or additional security?

--A policy for what constitutes "material noncompliance" for denial of a claim. Which provisions of the insurance policies and guarantee agreements, if violated, would clearly result in a denial of claim payment?

--A policy with respect to reporting insurance policy and guarantee violations to the Board of Directors. We were advised by Eximbank officials that claim memos provided to the Board and Loan Committee sometimes contain only those violations considered pertinent by the Claims Division.

--Guidelines to determine whether a claim is political or commercial in those cases where there has been war or civil unrest?

--A policy with respect to conditional claim payments where the claim is paid based on the occurrence of a subsequent event. We were advised that conditional claim payments are no longer made although there is no written policy to this effect.

--A policy to cover claims when insurance premiums are not paid. We were advised that claims are considered on a case-by-case basis when there is nonpayment of insurance premiums. However, there is no written policy to this effect.

--Guidelines to assess the time and cost--both internal costs such as staff and overhead, and external costs such as attorney fees--of recovery versus the prospects of recovery.

--A policy for determining that a guaranteed bank's efforts to demand payment on the guarantor is sufficient, before Eximbank pays on the guarantee.

We recognize that the Claims Division has recently published an operational manual and is continuing its efforts to develop standard operating procedures. These documents describe the basic procedure for processing claims. These efforts are commendable because they provide some uniformity for processing claims. However, these documents are process-oriented and do not address policy issues or operating guidelines, particularly in those areas previously discussed. As a result, we believe an additional effort is needed to formally document the policies and guidelines under which the Claims Division operates.

NEED TO IMPROVE CONTROL OVER TRAVEL PROCESSING

Our review of travel found some procedures that need improving. We believe that Eximbank needs to (1) verify the accuracy of airline bills before payment, (2) ensure that it is obtaining the least expensive airfare available, and (3) systematically review travel records to ensure that unused tickets and coupons are redeemed.

Under current procedures, Eximbank officials do not verify the accuracy of payments to airlines for the cost of airfare. This lack of verification could result in improper payments being made for airline fares. Subsequent to Eximbank officials purchasing a ticket, the airline bills Eximbank with the form designated "Public Voucher for Transportation Charges." This form is forwarded to the Treasurer/Controller's Office for review and authorization for payment. According to the authorizing official, the verification process involves checking the amount indicated on the

passenger copy of the airline ticket against the amount on the "Public Voucher for Transportation Charges." This official stated that he authorizes the payment of airfare, but it is the responsibility of other officials under his supervision to actually verify the amount billed. However, this procedure is not documented and the subordinate officials stated they were unaware of this responsibility, and that they do not verify the amount as correct before payment. From our reviews of travel files, we found several examples where passenger ticket receipts were not attached, making the verification process more difficult.

Present procedures and employee responsibilities do not ensure that the least-expensive airfare is always obtained. GSA regulations state that special lower fares should be used for official travel when it can be determined before the start of a trip that this type of service is practical and economical to the Government. GSA has entered into contracts with U.S. air carriers to provide transportation at reduced fare for official travel between selected cities. GSA regulations and Eximbank directives state that all travelers must use the contract service for official travel except if use of an non-contract carrier is less costly than that of a contract carrier, or if the use of a contract carrier is not feasible. If contract airfares are not used, GSA requires that a "Certification for the Use of the Non-Contract Air Carrier" be authorized by a agency official indicating that one or more of four exceptions allowed by GSA are applicable. Also, if contract airfare is used, the ticket should be verified to ensure that the proper contract airfare symbol is shown.

Our review indicates that there is confusion as to who is responsible for assuring that the GSA regulations and Eximbank directives are carried out. Eximbank directives do not state who is specifically responsible for ensuring that the least expensive airfare was obtained. Officials to whom the responsibility has supposedly been delegated were unaware that it is their responsibility.

As a follow-up assurance that contract airfares are used whenever possible, an official in the Treasurer/Controller's office stated that this was checked by officials under his supervision. However, these officials told us they were not aware of this responsibility and not familiar with the method used to verify the ticket. Our limited review of travel vouchers disclosed two airline trips where airfares were paid other than the available contract airfare. However, we found no evidence of an authorized "Certification." Officials in the Treasurer/Controller's Office are reportedly responsible for ensuring that the "Certification" is attached to the voucher. However, these officials stated that they were unaware of this responsibility and have not even seen the "Certification" form.

Travel officials do not routinely review travel files to assure that unused tickets or coupons are redeemed. As a result of our review of travel files, we noted two vouchers with what appeared to be unused tickets attached, and one voucher with unredeemed coupons attached. After we brought this to the attention of Eximbank officials, steps were taken to redeem them.

CONCLUSIONS AND RECOMMENDATIONS

Because the Claims Division acts to minimize financial loss, its effective operation has a direct impact on the ultimate expenditure of Eximbank resources. The lack of clearly established policies and guidelines for the Claims Division makes it extremely difficult to judge the efficiency and effectiveness with which the division is operating. We believe formalized operating policies and guidelines would provide a framework to help the Board of Directors determine how well the division is performing this mission.

Responsibilities for processing various stages of travel are not clearly defined. In addition, present procedures for processing travel do not ensure that (1) the proper amount is paid for airfares, (2) the least expensive airfare is obtained, and (3) the cost of unused airline tickets and coupons are recovered.

We recommend that the Chairman, Export-Import Bank, direct the Vice President, Administration, and the Treasurer-Controller to (1) affix responsibilities for each procedure in processing travel and ensure that employees are cognizant of their responsibilities, (2) establish procedures ensuring that the least-expensive airfare is obtained, (3) routinely verify the payment of airline fares, and (4) ensure that unused airline tickets and coupons are promptly covered.

OBJECTIVE, SCOPE, AND METHODOLGY

Our objective was to determine if the allegations contained in the unsigned letters sent to us by Senator Proxmire were true. We performed our review of first-class travel and claims processing at the Export-Import Bank in Washington, D.C. Our work was performed in accordance with the Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" and was done in conjunction with our review of Eximbank's fiscal year 1981 financial statements.

In determining whether first-class air travel at Government expense was still occurring, we examined travel records for all out-of-city travel from August 1981 through March 1982. In those cases where first-class air travel was used, we determined whether the traveler paid the difference between first-class and coach. We examined Eximbank's travel policies and procedures, and interviewed officials responsible for administering the travel function and for processing travel vouchers.

With regard to the allegations concerning claims processing, we reviewed the claim files for the four claim cases cited in one of the anonymous letters. We interviewed officials about the processing of these claims and the reasons for their final disposition. We reviewed the Claims Division's operating procedures and discussed claim policies to determine if there are formal policies and guidelines to assist the division in achieving consistent claim processing and payment. We also interviewed the Vice-President and Deputy Vice President, Claims, and 12 present and former claims officers concerning their role in claim processing and the presentation of claims to the Board of Directors and the Loan Committee.

We did not obtain official agency comments on this report. However, its contents were discussed with officials of the Export-Import Bank.

WILLIAM PROXMIRE, WIS., CHAIRMAN
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ALAN CRANSTON, CALIF. JOHN TOWER, TEX.
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MARY FRANCES DE LA PAVA, CHIEF CLERK

United States Senate
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, D.C. 20510

October 15, 1980

Honorable Elmer B. Staats
Comptroller General
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Staats:

Enclosed are two letters I have received from anonymous individuals at the Export-Import Bank that make serious allegations of mismanagement and misconduct at the Bank.

I would appreciate having the General Accounting Office look into these matters and report findings to me as soon as possible. I am particularly concerned by the letter dealing with the management of Eximbank's Claims Division and its comments on the manner in which the GAO reviews that division's activities. I am interested in the scope of the review performed by GAO of Eximbank's Claims Division and whether the Office examines for consistent and proper claim payment procedures and management.

Thank you for your cooperation. I look forward to hearing from you as soon as possible.

Sincerely,

William Proxmire
Chairman

WP/bfw
Enclosure

BEST DOCUMENT AVAILABLE

APPENDIX V

WILLIAM PROXMIRE, WIS., CHAIRMAN
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MARY FRANCES DE LA PAVA, CHIEF CLERK

United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, D.C. 20510

June 26, 1979

The Honorable Elmer B. Staats
Comptroller General of the United States
General Accounting Office
441 G Street, NW
Washington, D. C. 20548

Dear Mr. Staats:

Please find enclosed an unsigned communication I received concerning the policies of the Export-Import Bank. I would appreciate your including in your next audit of the Bank's programs, a study of the problems alleged to exist per the enclosed letter.

I look forward to receiving your report.

With best wishes,

Sincerely,

William Proxmire, Chairman
Committee on Banking, Housing
and Urban Affairs

Enclosure

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APPENDIX VI

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-197710

March 28, 1980

The Honorable William Proxmire, Chairman
Committee on Banking, Housing and
Urban Affairs
United States Senate

Dear Mr. Chairman:

Subject: Claims Procedures of Export-Import Bank of the United States (ID-80-35)

This is in response to your letter of June 26, 1979, requesting that we look into certain allegations of poor management practices at the Export-Import Bank. In subsequent discussions with your office, it was agreed that we would look into the allegation relating to claim payments as part of our audit of the Bank's financial statements for fiscal year 1979. In connection with the audit, we reviewed the Bank's claims-processing practices and procedures.

Since the Bank's inception, claimants have filed $185.2 million in claims. As of January 31, 1980, the Bank approved payment for $119.6 million in filed claims; of the remaining $65.6 million, (1) $32.1 million was still being processed or claimants had requested the Bank to discontinue processing while they attempted other methods of obtaining payment from the obligators, (2) $31.1 million was withdrawn by the claimants, and (3) $2.4 million was denied by the Bank.

Our review of the Bank's claims procedures consisted of an analysis of its procedures for reviewing and processing filed claims and a test of selected claims to assure that the procedures were followed. Our test disclosed no indications that irregularities involving claim payments exist

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APPENDIX VI

B-197710

because of flexible bank policies or that individuals involved in the authorizations of loans, guaranties, or insurance agreements also participate in the claims process, as charged in the letter of allegation you forwarded to our office.

We trust this information satisfies your needs.

Sincerely yours,

Comptroller General
of the United States

(487075)